

SECTION 1. Short title.

This section would provide the short title, “Credit Card Safety Star Act of 2007.”

SECTION 2. Findings.

This section outlines the Congressional findings that the credit card market is inefficient due to a lack of transparency, resulting in reduced competition, and that a rating system on credit cards will help consumers make better choices. Such a rating system would not preclude additional regulation or legislation that would eliminate practices considered abusive or unfair.

SECTION 3. Truth in Lending Act Amendments.

This is the section in which the Credit Card Safety Star rating system is described.

Subsection (a) provides for definitions used in the in the Credit Card Safety Star system, including defining agreements, reading levels, references to the Safety Star System, multiple-cycle billing, and junk mail.

Subsection (b) requires the Federal Reserve to adopt rules that would implement the Safety Star System within one year of the bill’s enactment. It also stipulates that the Board shall consult with the Comptroller of Currency for issuing rules for the system.

Subsection (c) details that the Safety Star System is a five-star rating system for rating the terms and conditions of credit cards.

Subsection (d) specifies that a five-star rating is the highest safety rating and a one-star rating is the lowest safety rating.

Subsection (e) details the point structure for the Safety Star System. Each variation of a term in an agreement is worth either 1 point or -1 point, depending on whether it is particularly safe or particularly unsafe to a credit card holder. This section also details how many points a card must achieve in order to receive a specific star rating. Five-star cards will receive 7 points or greater, four-star cards will receive between 3 and 6 points, three-star cards will receive between -1 points and 2 points, 2-star cards will receive between -6 points and -2 points, and 1-star cards will receive -7 points or fewer.

Subsection (f) defines which terms in an agreement result in getting a point under the Safety Star System. These include:

- No binding or non-binding arbitration clause applies
- At least 90 days notice is provided to the cardholder if the card issuer wants to change the terms in the agreement, with the option for the consumer to opt out of the changes, while paying off their original balance according to the original terms

- Changes are disclosed in a manner that highlights the differences between current terms and the proposed terms
- The original card agreement and all original supplementary materials are in one document at one time, and, when the card issuer discloses changes to the card agreement those materials are not in junk mail form and are disclosed conspicuously, together with the next billing cycle statement, before the changes become effective
- No over-the-limit fees are imposed for transactions approved at the time of transaction by the card issuer
- No fees are imposed to pay credit card bills using any method, including over the phone
- The card issuer has in place a system to minimize fees to the consumer that is at least as financially beneficial to the consumer as a system under which payments are applied to principal in a manner that divides the payment among the different interest rate balances proportionally
- Interest is not accrued on new purchases between the end of the billing cycle and the due date when a balance is outstanding
- The card issuer does not use multiple cycle billing
- With respect to subprime, unsecured credit plans, fees are below 10 percent of the minimum allowed credit balance
- The terms of the agreement are disclosed in a form that requires at or below an 8th grade reading level
- Any secondary disclosure materials meant to supplement the terms of the agreement are disclosed in a form that requires at or below an 8th grade reading level
- No late fee may be imposed when a payment is received, whether processed by the issuer or not, within two days of the payment due date
- A copy of the agreement and all supplementary materials are easily available to the cardholder online
- A substantial positive financial benefit would be provided to the consumer, as determined by the Board in accordance with subsection (h)

Subsection (g) defines which terms in an agreement result in losing a point under the Safety Star System. These include:

- Binding or nonbinding arbitration is required to resolve disputes
- Fewer than 30 days notice before the billing statement for which changes in terms take effect are provided to the cardholder when the card issuer wants to change the terms of the card agreement (which shall be assumed if the notice for such changes are undisclosed in the agreement)
- Junk mailer disclosures are used to inform cardholders of changes in their agreements
- Over-the-limit fees are imposed more than once based on the same transaction
- Fees are imposed to pay bills by check, over the Internet, or by an automated phone system

- Payment allocations are less financially beneficial to the consumer as a system under which payments are applied to older balances before newer ones
- Interest is accrued on new purchases between the end of the billing cycle and the due date when a balance is outstanding
- With respect to subprime, unsecured credit plans, the fees to obtain or maintain the card amount to more than 50 percent of the minimum allowed credit balance
- The terms of the agreement are disclosed in a form that requires a reading level that is above 12th grade reading level
- Any secondary disclosure materials meant to supplement the terms of the agreement are written in a form that requires a reading level above the 12th grade reading level
- The issuer may unilaterally change the terms in the agreement without written consent from the consumer
- Interest rate increases apply to already incurred debt.
- The issuer charges interest on transaction fees, including late fees
- There would be a negative financial impact on the consumer, as determined by the Board in accordance with subsection (h)

Subsection (h) gives guidance to the Federal Reserve about what it should consider when adding new terms to the Safety Star System.

Subsection (i) limits the Federal Reserve from considering the profitability or impact on the success of any particular business model of terms when considering the terms' placement in the Safety Star System.

Subsection (j) automatically assigns a one-star rating to all cards with

- 1) clauses that allow the card issuer to change its terms in the agreement at any time or periodically for unspecified or unstated reasons.
- 2) clauses that allow the card issuer to use other accounts, or changes in a third-party's credit rating of the consumer, as a basis for adverse changes in the agreement, including "universal default."

Subsection (k) stipulates that if a term becomes required by law, no points will be awarded under the system.

Subsection (l) requires card issuers to certify to the board how many stars each of their agreements are awarded, based on the Safety Star System. They must certify, separately, whether each of their agreements includes any of the terms mentioned in the system and how it impacts that agreement's rating. Every agreement will be submitted to the Federal Reserve. The Federal Reserve will then verify that the submitted agreements and supporting materials comply with the certification to the board, no later than 30 days from submission. Issuers may certify to the Board that a particular term is in all the issuer's agreements and may then be verified by the Board only once. Misrepresentations to the Federal Reserve are treated as a violation of the Truth in Lending Act. After the first annual Federal Reserve review of the system, as described in subsection (o), whenever a card issuer wants to introduce a new term or concept, it must be submitted to

the Federal Reserve for review on how that term will impact card ratings. The Federal Reserve may take no longer than 30 days to perform this review.

Subsection (m) stipulates how the ratings will be displayed to consumers: on all marketing materials, applications, billing statements and agreements associated with the card. The Federal Reserve will develop graphics that will demonstrate both how many stars a card received along with how many stars it did not receive. The Federal Reserve will also create a brief explanation of the system for display below the rating on all materials, except on the back of the credit card. Card issuers will have to reissue cards any time that the star rating drops.

Subsection (n) describes how the Federal Reserve will educate consumers about these ratings, including generating a stand-alone website that details the system, how consumers can learn how each particular card received its rating, and how many consumers have each agreement.

Subsection (o) provides for an annual review of the Safety Star System by the Federal Reserve that will take no longer than six months to determine if the Safety Star System is effectively aiding consumers. If the Federal Reserve finds it is not, the Federal Reserve shall implement regulations that are necessary to ensure that the System protects consumers and encourages transparent competition and fairness to consumers. Results will be submitted to Congress and made available to the public.

Subsection (o) requires the Federal Reserve to determine every two years if the requirements to satisfy two-star standards and above should be raised because card issuers have abandoned the most unfair practices.

SECTION 4. Safety Star Advisory Commission.

Subsection (a) establishes the Commission.

Subsection (b) establishes the Commission's duties, which include

- 1) Reviewing the Credit Card Safety Star System and issuing an annual report on the efficacy of the System and its recommendations for the System. This includes topics that will be reviewed.
- 2) Studying whether banning certain practices would better protect consumers than using a rating system for those practices.
- 3) Reviewing reports the Federal Reserve makes regarding the Safety Star System and to submit to the appropriate committees of Congress written comments on those reports.
- 4) Periodically consulting with the chairperson and ranking minority members of the appropriate committees of Congress about the Commission's agenda.
- 5) Conducting additional reviews and submitting reports as such chairpersons and minority members as the Commission deems appropriate.
- 6) Making reports available to the public.

This section also defines which committees are the appropriate committees of Congress and the voting and reporting requirements of the Commission. Additionally, it requires that if any recommendation is likely to have a Federal budgetary impact, the Commission shall examine the budget consequences of those recommendations.

Subsection (c) establishes the membership of the Commission, including how many Commissioners, their qualifications and their backgrounds. It also establishes the system for public disclosure of conflicts of interest, how long members serve, how vacancies are filled, how they and Commission staff are compensated, who designates the Chairperson and Vice Chairperson, and who shall call Commission meetings.

Subsection (d) allows the Commission to have an Executive Director and other personnel as necessary to carry out its duties, to seek assistance from Federal departments and agencies, to enter into contracts as necessary to conduct the work of the Commission, to make payments which relate to the work of the Commission, to provide transportation and subsistence for persons serving without compensation, and to prescribe rules as necessary regarding the internal organization and operation of the Commission.

Subsection (e) stipulates the powers that the Commission has or to which it must submit. This includes

- 1) Having the power to require any department or agency of the United States to furnish information necessary for the Commission to carry out its duties.
- 2) Having the power to collect data from published and unpublished sources, contract for original data, and accept information from interested third parties when making reports and recommendations
- 3) Requiring the Commission to submit to the Comptroller General unrestricted access to all Commission information, except proprietary data, upon request
- 4) Requiring the Commission to submit to periodic audits of the Commission by the Comptroller General.

Subsection (f) requires the Comptroller General to provide necessary administrative and support services to carry out this section.

Subsection (g) authorizes \$10 million per year to be appropriated to the Commission to carry out this section.